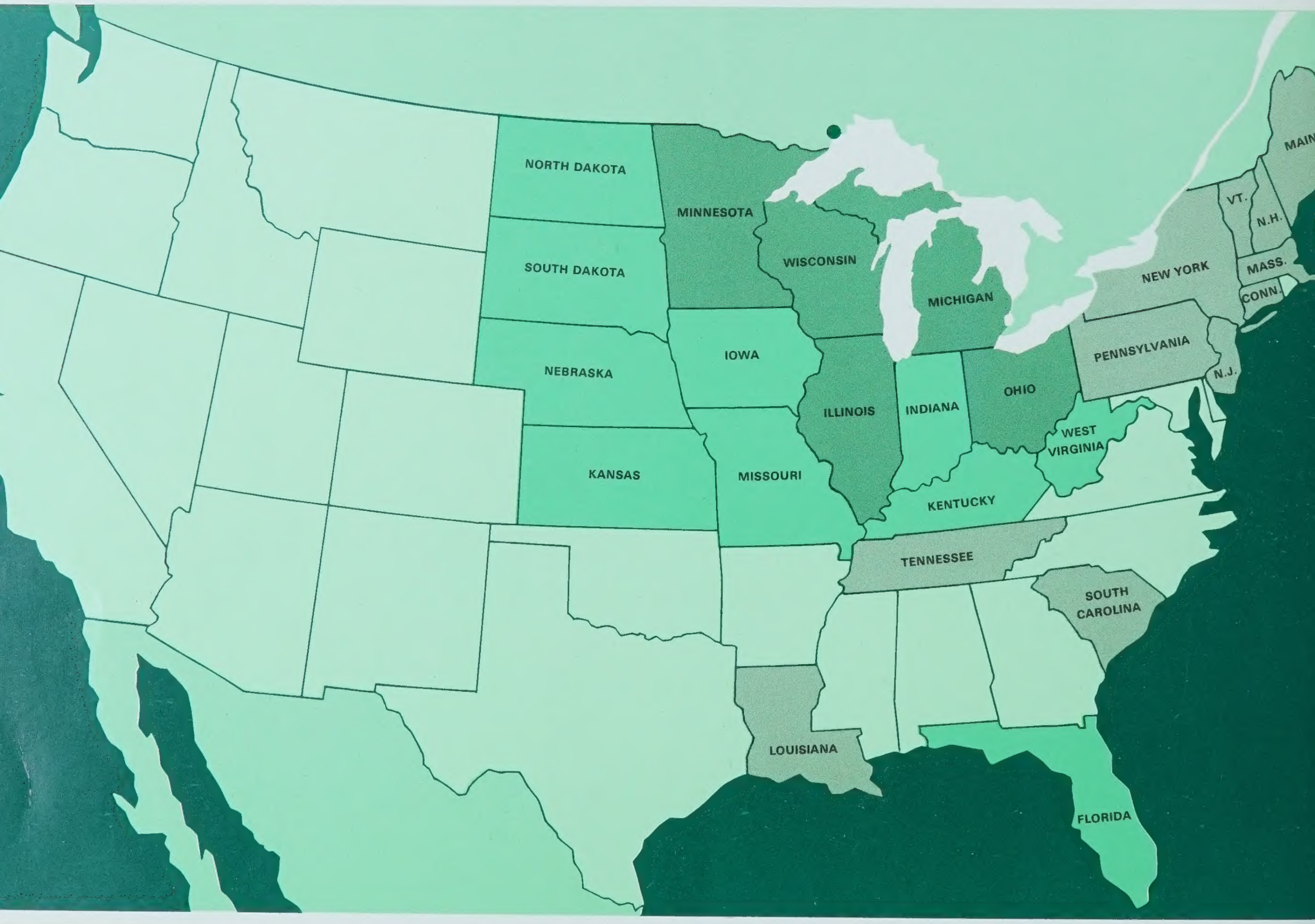
GREAT LAKES PAPER / ANNUAL REPORT 1970

Product Distribution

Newsprint Both Newsprint & Chemical Pulps Chemical Pulps



The map illustrates the importance of our location in relation to the main markets we serve. From our mill at Thunder Bay both Canadian railroads and two major water shipping lines provide a flexible and dependable transportation service to our United States newsprint and chemical pulp customers. Our location at the western Canadian end of the St. Lawrence Seaway supports direct shipment to the Atlantic coast and overseas destinations, as well as our long-established service to Great Lakes ports. Our service to Great Lakes ports is illustrated on page 4.

THE GREAT LAKES PAPER COMPANY, LIMITED
1970 ANNUAL REPORT FROM THE DIRECTORS

Directors listed on page 25

To the Shareholders

IN 1970 we reached new highs in total dollar sales and in total shipments but our net earnings were 13.8 percent lower than 1969. The various factors that caused this mixed result are set forth in detail in later pages of this report.

We draw your attention to a change in our depreciation basis which affected earnings in 1970. The change is explained in the report and the items affected are duly noted.

A STUDY to determine the feasibility of adding a second kraft pulp mill to our existing mill facilities was announced on May 6, 1970. The results of the study were presented to the directors in December and the matter was deferred for the time being. The study will be kept up to date and reviewed by the directors from time to time.

A REDUCED DIVIDEND of 20 cents was declared on February 4, 1971 payable April 1. The previous rate of 25 cents a share had been in effect since 1964. The reduction was due to the adverse effect that the floating Canadian dollar had on our earnings as well as increases in labor and other operating costs.

THE FORMAT for our report established in 1969 is being followed again this year with little change. The map and color pictures are intended to show the importance of our location in relation to the markets we serve and to provide some information on our products, particularly the end use of kraft pulp. We hope you find this information helpful.

On behalf of the directors,

March 29, 1971

C. J. WARWICK FOX, *president*

ON INSIDE PAGES

Except for total sales, dollars in this report are Canadian unless otherwise identified. Amounts per share are based on the total shares issued up to the end of 1970 as reported herein.

Scoreboard

	1970	1969	PERCENT UP OR DOWN IN 1970
newsprint paper, tons shipped	335,194	350,709	down 4.4
chemical pulps, tons shipped	184,613	167,918	up 9.9
total shipments to customers	519,807	518,627	up 0.2
'000 omitted			
total sales (U.S. dollars)	$79,667	$75,226	up 5.9
profit on U.S. dollar exchange	2,445	5,518	down 55.7
sales, in Canadian dollars	82,112	80,744	up 1.7
operating profit	15,728	17,951	down 12.4
interest charges	2,537	2,036	up 24.6
depreciation and depletion, see page 6	5,873	6,528	down 10.0
earnings before income taxes	8,820	10,446	down 15.6
income taxes	4,475	5,407	down 17.2
NET EARNINGS: total amount	$ 4,345	$ 5,039	down 13.8
net per share	$ 1.21	$ 1.40	down 13.8
dividends declared: total	$ 3,603	$ 3,603	same
amount per share	$ 1.00	$ 1.00	same
% of net per share	83	71	up 16.9
cash flow	$ 9,963	$10,317	down 3.4
working capital at year-end	20,606	26,334	down 21.8
fixed assets, at year-end	128,932	122,282	up 5.4
retained earnings, at year-end	26,596	25,854	up 2.9

Ten-year financial and tonnage summaries are shown on pages 22, 23 and 24

OUR COMPANY

The Great Lakes Paper Company, Limited was incorporated under The Companies Act (Ontario) in 1936. We manufacture newsprint paper, bleached kraft pulp and unbleached sulphite pulp. Our mill and head office are at Thunder Bay, Ontario. Adjacent to the mill we hold 15,200 square miles of forest areas under Ontario licence.

Five Highlights of '70

1. Our net earnings of $1.21 a share in 1970 were down from $1.40 a share in 1969.

2. Earnings for 1970 were depressed by 35 cents a share due to the reduction in our U.S. dollar exchange premium following the federal government's action in June, 1970 of allowing the Canadian dollar to float on the international monetary market, explained in detail on page 5.

3. Total shipments of 519,807 tons in 1970 set a new record over the previous high of 518,627 tons in 1969. Chemical pulp shipments were at a new high of 184,613 tons in 1970 compared with 167,918 tons in 1969.

4. Total sales of $79.7 million in 1970 were at a new high compared with the previous high in 1969 of $75.2 million reflecting improved prices in newsprint and kraft pulp as well as increased pulp shipments.

5. We changed our depreciation basis in 1970 to the straight-line method generally prevailing in the industry which affected earnings and other items explained in the report.

SHAREHOLDERS' MEETING

Our shareholders' meeting will be held at 11:30 a.m. Eastern Daylight Saving Time in the Roof Garden of the Royal York Hotel, Toronto on Tuesday, April 27, 1971.

Within 48 hours a lake freighter can reach key Great Lakes ports from our mill dock. During 1970 shipping season, 68 boatloads of newsprint were shipped from our mill. As well as water shipments, our products were transported by rail. In 1970 an average of 1,729 tons of newsprint and chemical pulps was shipped to customers every working day.

Tons and Sales at New High; Earnings Down

Net earnings of $4.3 million were down 13.8 percent from $5 million in 1969 representing $1.21 a share compared with $1.40 in 1969.

A decrease in our net earnings of $1.25 million or 35 cents a share resulted from the drop in our U.S. dollar exchange premium discussed below.

Our 1970 earnings reflect the modification in our depreciation practice explained on page 6. The following table shows net earnings per share on both depreciation bases over the past two years:

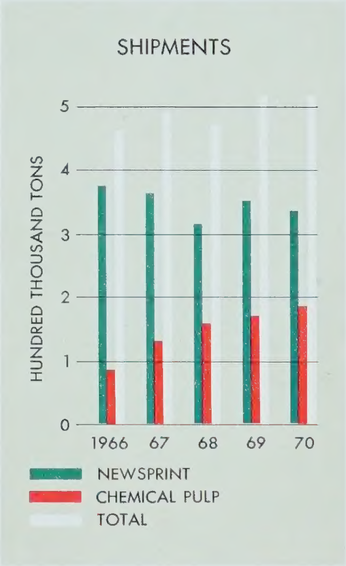
	New Depreciation Basis	Former Depreciation Basis
1969 - - - - - - - - -	$1.54	$1.40
1970 - - - - - - - - -	$1.21	$1.09

Gains were made during the year in increased newsprint and pulp prices and slightly higher total shipments, but the problem of cost inflation, particularly wage, electric power and freight rates, continues to have a serious effect on our earnings.

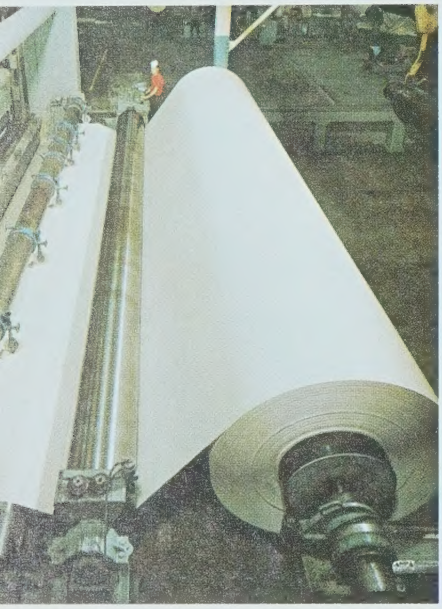
$3.1 Million Drop in U.S. Dollar Exchange Premium

Our U.S. dollar exchange premium of $5.5 million in 1969 dropped to $2.4 million in 1970. On the average our exchange premium in 1970 was 3.1 percent compared with 7.3 percent in 1969. The decrease began in June, 1970 when the federal government freed the Canadian dollar from its pegged value of 92½ cents U.S. currency and allowed it to find its own level in the international monetary market. As the Canadian dollar gained strength the exchange premium on the U.S. dollar diminished, reaching approximately one percent at the end of 1970. Since virtually all our sales are in the U.S., the reduction in the exchange premium had a serious effect on our earnings.

If the 1969 average exchange rate had prevailed in 1970, our net earnings for 1970 after taxes would have been $1.25 million or 35 cents a share higher. This takes into account any benefits we received from transactions



Total shipments of 519,807 tons in 1970 established a new record slightly above the previous record in 1969. Chemical pulp shipments, which set a new high of 184,613 tons in 1970, have increased steadily since the opening of our kraft pulp mill in 1966. Newsprint shipments of 335,194 tons in 1970 were down 4.4 percent from 1969 shipments.



This newsprint roll 27 feet 5 inches wide weighing about 10 tons is being slit to customers' widths on our No. 4 paper machine at Thunder Bay.

SALES & EARNINGS

'000 omitted

	Total Sales	Oper. Profit	Net Earnings
1970	$79,667	$15,728	$4,345
1969	75,226	17,951	5,039
1968	66,086	14,455	3,089
1967	69,223	17,511	4,210
1965	46,872	15,746	5,698
1960	38,409	10,181	2,697

involving the expenditure of U.S. dollars where the strengthened Canadian dollar worked in our favor.

Shipments

While total shipments of 519,807 tons in 1970 were slightly higher than our previous record of 518,627 tons in 1969, our newsprint shipments of 335,194 tons were down 4.4 percent from 350,709 tons in 1969. The drop in newsprint shipments reflected the slowdown in the U.S. newspaper publishing field.

Our 1970 chemical pulp shipments of 184,613 tons were 9.9 percent higher than 167,918 tons in 1969 setting a new record high for the company. This increase was due to steady growth in our bleached kraft pulp shipments and further improvement in unbleached sulphite shipments in 1970.

Prices

On January 1, 1970 the price of our newsprint was raised $5 a ton from $147.00 to $152.00 a ton (U.S. funds). During the year we announced a further increase of $10 a ton in the price of our newsprint effective January 1, 1971. Subsequently this increase was reduced to $8 a ton and the effective date extended to April 1, 1971.

Kraft pulp prices made substantial gains in 1970 over the previous year. This improvement in prices and steady increases in kraft pulp shipments made an important contribution to our 1970 earnings.

Dollar Sales at New High

With the new high in total shipments in 1970 and improved prices for newsprint and chemical pulp, we set a new record of $79.7 million in total sales in 1970 compared with the previous high of $75.2 million in 1969. Total sales are defined on page 23.

Depreciation Method Modified; Interest Up

Studies of depreciation practices generally prevailing in the industry led us to modify the basis of calculating depreciation on mill buildings and

equipment in 1970, from the diminishing balance method to the more widely used straight-line basis. Depreciation is defined on page 23 and discussed in our accounting policy section on page 21.

While there is a difference in yearly charges between the new straight-line basis and the former basis, total depreciation is similar in both cases over a 20-year period as shown in the following example:

Depreciation charged to earnings on $1,000 asset

Years	1 - 5	6 - 10	11 - 15	16 - 20	Total
Old Basis	$410	$240	$140	$ 90	$880
New Basis	$225	$225	$225	$225	$900

Total depreciation for 1970 on the new basis amounted to $5.9 million, $900,000 less than would have been charged to earnings had we followed the previous method. This resulted in an increase of $430,000 in 1970 net earnings after taxes or 12 cents a share.

All figures in this report for the years prior to 1970 are as originally reported and have not been re-stated to reflect the new depreciation basis.

Due to the new bond issue of $20 million in June, 1969 interest charges of $2.5 million in 1970 were higher than the $2 million in 1969. This increase was largely offset by interest income from term deposits.

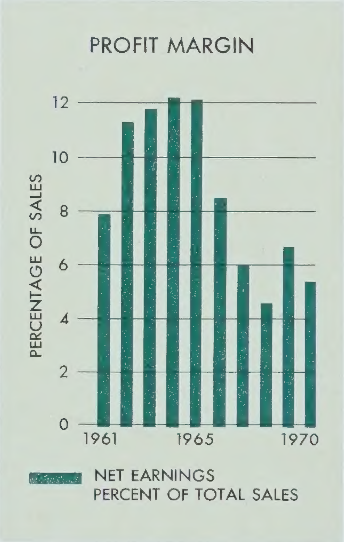
Both depreciation and interest are shown on a chart on page 13.

Profit Margin Reduced

Profit margin means net earnings as a percentage of total sales. Because of lower net earnings, our profit margin of 5.5 percent for 1970 was down from 6.7 percent in 1969. The chart opposite shows profit margin over the past ten years.

Cash Flow Down

Our cash flow, defined on page 23, was $10 million in 1970, down 3.4 percent from $10.3 million in 1969. As the chart on page 9 illustrates, 1970 cash flow is lower than 1969 but well above the low in 1968. The peak years of 1964-67 reflect the reduced tax payments in those years as a result of the accelerated write-off for tax purposes of expenditures on our



Our net earnings of $4.3 million were 5.5 percent of total sales in 1970, down from 6.7 percent in 1969.

EARNINGS PER TON

Net earnings per ton of total shipments have been as follows.

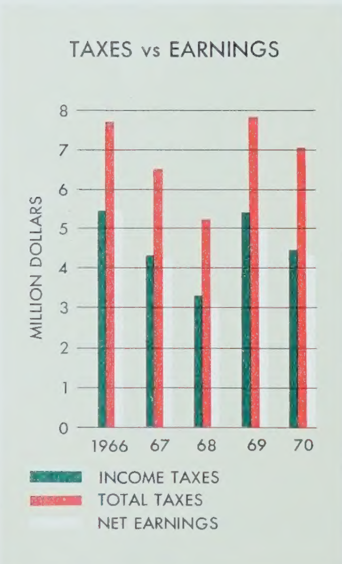
1970	1969	1965	1960
$8.36	$9.72	$16.15	$9.29

kraft pulp mill. Explanation of our policy and deferred income taxes is discussed in our accounting policy section on page 21.

Our cash flow in 1970 consisted of the following items: \$4.3 million in total net earnings; \$5.9 million in depreciation and depletion charges less \$255,000 reduction in deferred income taxes.

Working Capital Reduced

Our working capital at the end of 1970 amounted to \$20.6 million versus a high point of \$26.3 million in 1969. The 1969 high resulted from the \$20 million first mortgage sinking fund bonds, Series B, issued in June, 1969. The reduction in 1970 reflects \$7.4 million for capital expenditures and \$4.8 million for reduction of long-term debt. Our long-term debt balance at December 31, 1970, after deducting the above provision for 1971, was \$32 million. Details of our bonds and debentures are shown on the balance sheet on page 19.



Total taxes include Ontario stumpage dues, ground rent, fire tax and municipal taxes. Income taxes alone exceed our total net earnings.

Capital Expenditures

We announced a capital expenditure program in 1969 estimated to total \$25 million, financed in part from the proceeds of the \$20 million bond issue. Projects now under way represent about \$16 million.

Capital expenditures in 1970 amounted to \$7.4 million. This included \$1.5 million to complete our primary liquid waste control system, \$1.2 million towards a new wood-handling and wood-processing system and \$1.1 million for paper machine improvements. The first two items are discussed below. In addition \$3.6 million was spent on a number of smaller projects to modernize and improve the efficiency of mill and woodlands operations and the quality of our products.

Wood-handling and Processing

In 1970 we began an extensive program that will result in completely revising our mill wood-handling and wood-processing operations by the end of 1971. The new system, which will integrate this aspect of our manufacturing processes for both newsprint and kraft pulp operations, incorporates facilities to make complete use of our wood for pulping

purposes, enabling us to reclaim left-over parts of logs that are now burned. Included in the plans is an improved method of barking and bark disposal, as well as means to dispose of all waste material. The new system will also provide improved scheduling of rail and truck deliveries of pulpwood to the mill, thereby reducing inventories.

The over-all program is in line with our continuing efforts to improve efficiency and introduce, wherever possible, new techniques and systems that will reduce operating costs. We estimate that the total cost for installing the new wood-handling and wood-processing system will amount to $7.5 million.

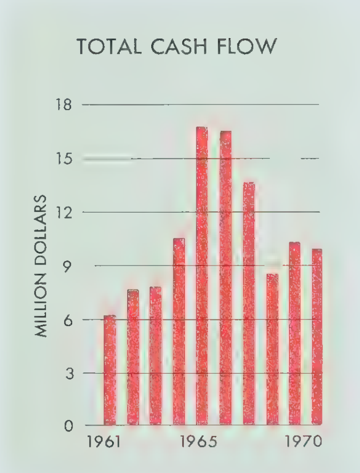
Related to this project is an auxiliary installation designed to utilize wastes of all types, thus aiding in our continuing fight against environmental pollution. This waste disposal facility, known as a fluidized bed reactor, will completely incinerate all non-useable waste material along with general mill debris without creating an air pollution problem. Heat from the reactor will generate hot water required for the new wood room. The new waste disposal installation will cost an estimated $750,000.

Liquid Waste and Odor Control

The giant settling tanks, or clarifiers, for the primary treatment of newsprint mill liquid wastes, commonly called effluent, were completed early in 1971 and are being made ready for operation. This is the final phase of our primary effluent treatment program which began with the opening of our kraft mill primary treatment system in 1967. Once operational, the system will provide the necessary information from its own data centre to assist in determining future secondary treatment requirements.

The Ontario Water Resources Commission has worked closely with us in the development of our program to combat water pollution. We will continue our efforts to meet the objectives for pollution control set by the government regulatory authorities.

Odors and other types of discharges resulting from our manufacturing processes have been greatly reduced as a result of our continuing efforts to improve our air pollution abatement facilities. While we have made considerable progress in this phase of our program, our technical and



Our cash flow of $10 million in 1970 was down 3.4 percent from 1969 but well above the low in 1968. High levels in the mid-1960's were largely due to tax deferments resulting from the kraft mill construction as explained on page 7.

CASH FLOW

Year	Per Share	Per Ton*
1970	$2.77	$19.17
1969	2.86	19.89
1968	2.36	18.06
1967	3.78	27.62
1965	4.63	47.29
1960	1.66	20.55

*Per ton of total shipments on page 24.

A growing number of disposable items used in operating rooms today including surgical garments, face masks, sheets and pillow slips are made from quality pulp such as our bleached kraft pulp. This market, which demands the highest quality, is turning increasingly to disposable products because of the sanitation and economies they provide. Disposables using pulp have wide application in many fields.

engineering staffs continue to search for new ways of improving our control systems with the guidance of regulatory authorities. Since 1964 we have spent a total of $8.5 million on all our pollution control facilities.

Woodlands Mechanization

The short-wood harvester has taken its place among the production machines now operating in our forest areas following several years of development work with prototype models. We have four such machines in operation designed to provide the most economical means of logging small timber.

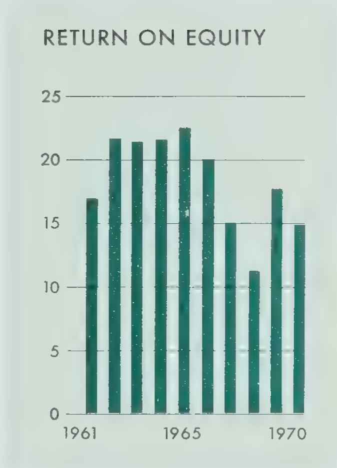
The short-wood harvester cuts trees mechanically, delimbs and shears them into eight-foot lengths automatically, collecting the pulpwood in a cradle at the rear. When it has accumulated a full load, it carries the cut pulpwood to the roadside. From here the wood is transported to the railhead or mill by heavy haul trucks. Due to the complexity of the machines, high degrees of skill and teamwork are required by operating and maintenance personnel to keep this equipment working on an around-the-clock basis.

Short-wood logging complements our well-established mechanical tree-length system. This latter system is used in stands of large timber and permits us to carry out our practice of separating tree-lengths which are suitable for poles and sawlogs, from those that will be used for pulpwood. This practice is called multi-product logging. The short-wood system will enable us to mechanize another phase of our primary cutting and wood forwarding operations in succeeding years.

Forest Regeneration

In 1970 our program of reforestation advanced steadily in close co-operation with the Ontario Department of Lands and Forests. Through these efforts some 4,750 acres of cut-over forest lands were treated for natural regeneration and a further 850 acres were prepared for seeding and planting. In 1970 some 2.7 million trees were planted in our forest areas.

We continued to work toward higher utilization of our timber resources and made good progress in improving our system of multi-product logging,



Net earnings as a percentage of shareholders' equity at year-end; shareholders' equity is defined in the glossary on page 23.

explained in the above section. We also explored the possibilities of increasing the yield from our forest lands through research in fertilization and thinning.

The prospects of increasing the harvest from our forest lands appears to be promising. Intensive forest management programs which include regeneration, fertilization and the use of tree species with higher yield capacity, are under active study and development. In this area also, we work closely with the Ontario Department of Lands and Forests.

Multiple Use of Our Forest Areas

As part of our education program to promote greater understanding of good forest management practices we conduct a part of our silvicultural program annually with high school and university students. The students have taken part in operational and experimental planting, in the establishment of sample plots for research into forest fertilization, in forest tending and plantation maintenance work, as well as regeneration surveys intended for planning purposes.

The continued development of our forest areas for the harvesting and improvement of tree crops has resulted, over the years, in the construction of more than 1,000 miles of all-weather gravel roads.

As well as serving our use, these roads open more and more areas for public recreational activities. We wholeheartedly support the concept of multiple use of forest areas and a growing healthy forest.

Woodlands Area Extended

In 1970 we were granted an additional 1,500 square miles of woodland area under five-year licence to support a possible expansion of our kraft mill. The new area is in addition to the 13,700 square miles already held under licences which contain renewal options extending to the year 2004. If the mill expansion is completed by 1975, the licence for the new area will be renewed on the same basis as these longer term licences.

Dividends

Dividends declared in 1970 were $1.00 a share which represents 83 percent of our 1970 net earnings.

1970 BY QUARTERS

'000 omitted

Quarter	Total Sales	Oper. Profit	Net Earnings
First	$17,528	$ 3,880	$ 920
Second	20,830	4,089	1,023
Third	19,472	3,552	906
Fourth	21,837	4,207	1,496
	$79,667	$15,728	$4,345

Total sales are before dollar exchange; the other two items include premium from U.S. dollar exchange.

NET BY QUARTERS

Net earnings per share on total shares issued at end of 1970

Quarter	1970	1969	1968	1967
First	$0.26	$0.27	$0.15	$0.29
Second	0.28	0.34	0.24	0.30
Third	0.25	0.29	0.14	0.28
Fourth	0.42	0.50	0.33	0.30
	$1.21	$1.40	$0.86	$1.17

In both tables the fourth quarter in 1970 reflects the full effect of the depreciation change.

Labor Union Agreements

During 1970, we negotiated new agreements with all labor unions representing employees in our company, which resulted in a substantial increase in wages and fringe benefits. Mill and office agreements cover a three-year period while the woodlands agreement is two years. All our settlements were generally in line with those now in effect throughout the pulp and paper industry in eastern Canada.

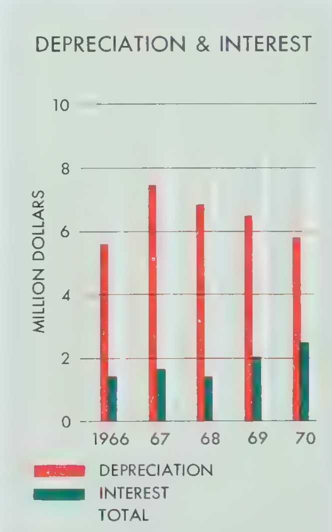
Five agreements which were completed in the fall are firm until April 30, 1973. These agreements are with International Union of Operating Engineers, Local 865; United Papermakers and Paper Workers, Local 257; International Brotherhood of Pulp, Sulphite and Paper Mill Workers, Local 39; Office and Professional Employees' International Union, Local 386 and International Brotherhood of Electrical Workers, Local 1565. The sixth agreement was completed in January, 1971 with The Lumber and Sawmill Workers' Union, Local 2693, of the United Brotherhood of Carpenters and Joiners of America and is in effect until August 31, 1972.

Our market kraft pulp is packaged in 500-lb. bales shown in the above photograph and sold under the trade name Superior Kraft.

Newsprint Capacity

Capacities of newsprint mills in Canada are rated by independent statisticians on a standard formula of performance per day; annual capacities are these daily ratings multiplied by the number of workdays a mill has in a year. Our rated capacity of 442,741 tons for 1971 is on the basis of continuous operation, seven days a week.

While seven-day operation is available to us under agreements with our unions, we have not yet had the opportunity of using the additional production. Thus we enter 1971 with a reserve of capacity to meet future growth in our customers' newsprint demand.



The drop in depreciation in 1970 resulted from the change in depreciation method. Interest charges were higher in 1970 due to the $20 million bond issue in June 1969.

Newsprint Market Outlook

A projection by Canadian Pulp and Paper Association shows newsprint consumption in the U.S. to be 11.4 million tons in 1975 versus 9.5 million tons in 1970. This projection is supported by a similar survey conducted by the American Newspaper Publishers Association. Strong competition for Canadian newsprint manufacturers in that market will continue to come

from U.S. producers, but we should be able to meet this competitive challenge and share in the over-all projected growth in U.S. demand.

Pulp Market Outlook

Our total chemical pulp shipments for the year were at record levels. Indications are that demand for kraft pulp will continue to grow although the market will be influenced by changing economic conditions and the introduction of new capacity from time to time.

Recognized as the finest form of wood fibre, our type of kraft pulp made from northern softwood is a prime ingredient in all grades of fine papers and specialty paper wherever strength and whiteness are important requirements. There is a promising future for our kraft pulp in the growing market for disposable products, such as the medical field illustrated in the photograph on page 10. Other items made from kraft pulp such as diapers, towels, bed linens and tissues for home use, packages, cartons and containers of all kinds and an increasing variety of clothing and dry goods are a few more examples of the growing list of disposables that are gaining in popularity.

Company Outlook

We expect to increase our shipments in 1971 and establish a new record in total sales. With the projected growth in our markets and the high quality of our products we believe that shipments will continue to increase over the longer term. Earnings, however, will be tempered by continuing increases in operating costs. To help offset these rising costs we will continue our program of up-dating and mechanizing our facilities and increasing the efficiency of both our mill and woods operations.

In addition there are a number of items such as taxes, other government charges and in particular, the dollar exchange rate, which will have an important bearing on our earnings. These items are outside our control and seriously affect the competitive position of Canadian companies such as ours who sell their products in international markets.

We will continue to expend every effort in dealing with these problems and improving our earnings. But the success of our efforts will depend in large measure on the course of those factors over which we have no control.

COMPANY OWNERSHIP

Percentage owned in Canada of shares issued end of 1970.

1970	1969	1965	1960
95.3	93.1	93.7	91

The above percentages are at year-end in each case. Canadian ownership has exceeded 90 percent since 1957. Number of shareholders at end of 1970 was 5,209. Ten-year records are on pages 22 and 23.

NEWSPRINT PAPER

Rated capacities of newsprint producers in Canada and other newsprint data may be obtained from reports issued by Canadian Pulp and Paper Association, on which the tables below are based. World totals in these tables omit communist countries for which reliable information is lacking and some of the 1970 figures are subject to revision by CPPA.

TOTAL WORLD SUPPLY

'000 tons	1970	1969	1960	1955
World capacity	22,950	22,189	16,009	11,657
World production	20,930	20,385	14,017	11,509
Operating ratio (%)	91.2	91.9	87.6	98.7

CANADIAN PRODUCTION

'000 tons	1970	1969	1960	1955
Total capacity	9,719	9,612	7,611	6,064
Tons produced	8,607	8,758	6,739	6,191
Excess capacity	1,112	854	872	nil
Operating ratio (%)	88.6	91.1	88.5	102.1

CANADIAN PERCENTAGES

	1970	1969	1960	1955
Of world capacity	42.3	43.3	47.5	52.0
Of U.S. supply	63.9	65.3	71.5	76.9
Of world production	41.1	43.0	48.1	53.8
Of world exports	72.0	73.8	77.6	80.3

WORLD DEMAND & IMPORTS

'000 tons	1970	1969	1960	1955
Total demand	21,150	20,849	14,201	11,667
Total imports	11,175	11,353	8,192	7,315
Import % of total	52.8	54.5	57.7	62.7

CANADIAN SHIPMENTS

'000 tons	1970	1969	1960	1955
Tons to U.S.	6,145	6,417	5,279	5,070
To overseas markets	1,731	1,616	986	735
To Canadian buyers	716	708	487	430
Total tons shipped	8,592	8,741	6,752	6,235

U.S. SUPPLY SOURCES

'000 tons	1970	1969	1960	1955
Tons from Canada	6,145	6,417	5,279	5,070
From U.S. mills	3,162	3,116	1,954	1,374
From Europe	310	293	147	146
Total tons of supply	9,617	9,826	7,380	6,590

BLEACHED KRAFT PULP

The U.S. is by far the largest user of chemical pulp. In 1970 U.S. demand for market bleached kraft pulp was 2.7 million tons, which was 28 percent of total world demand of 9.5 million tons. These amounts represent the free movement of market pulp and do not include shipments between integrated buyers and sellers. The accompanying table shows the three principal sources of U.S. market bleached kraft pulp. Canada's shipments to this market represent 56 percent of the total.

Preliminary estimates indicate that total world consumption of bleached kraft pulp in 1970, including integrated tonnage, was approximately 27 million tons.

U.S. SUPPLY SOURCES

'000 tons	1970	1969	1960	1955
Tons from Canada	1,519	1,732	873	573
From U.S. mills	1,171	1,336	531	591
From Scandinavia	15	33	86	97
Total tons of supply	2,705	3,101	1,490	1,261

Source: Canadian Pulp & Paper Association

Source and Application of Funds

consolidated statement for years ended December 31st (thousands of dollars)

	1970	1969
SOURCE OF FUNDS		
Net earnings as reported on page 17	$ 4,345	$ 5,039
Charges not requiring an outlay of funds		
Depreciation and depletion	5,873	6,528
Decrease in deferred income taxes	(255)	(1,250)
FUNDS FROM OPERATIONS	9,963	10,317
Other sources		
Net proceeds from issue of bonds	—	19,469
Sale of fixed assets	161	89
	10,124	29,875
APPLICATION OF FUNDS		
Expenditures on fixed assets	7,446	2,704
Reduction of long-term debt	4,803	4,373
Dividends declared	3,603	3,603
	15,852	10,680
INCREASE (DECREASE) IN WORKING CAPITAL	(5,728)	19,195
WORKING CAPITAL AT BEGINNING OF YEAR	26,334	7,139
WORKING CAPITAL AT END OF YEAR	$20,606	$26,334

Earnings and Retained Earnings

consolidated statement for years ended December 31st (thousands of dollars)

	1970	1969
Total sales, defined on page 23	$79,667	$75,226
U.S. dollar exchange premium	2,445	5,518
	82,112	80,744
Cost of sales and delivery expense	64,644	61,279
Selling and administrative expenses	1,740	1,514
	66,384	62,793
Operating profit	15,728	17,951
Other income, including term deposit interest	1,502	1,059
	17,230	19,010
Interest on long-term debt	2,537	2,036
Depreciation and depletion (Note 1)	5,873	6,528
	8,410	8,564
Earnings before income taxes	8,820	10,446
Income taxes	4,475	5,407
Net Earnings for year	4,345	5,039
Retained earnings at beginning of year	25,854	24,949
	30,199	29,988
Dividends declared on common shares	3,603	3,603
Bond issue discount and expense	—	531
	3,603	4,134
Retained Earnings at end of year	$26,596	$25,854

ASSETS	1970	1969
CURRENT ASSETS		
Cash	$ 980	$ 1,463
Short-term deposits including accrued interest	9,638	18,720
Accounts receivable	13,251	11,278
Inventories at cost or net realizable value, whichever is lower:		
Finished goods	546	307
Stores, pulpwood and other raw materials	5,446	5,897
Expenditure on pulpwood operations	3,287	3,236
Prepaid insurance and other expenses	176	172
	33,324	41,073
FIXED ASSETS—at values placed thereon at the inception of the company with subsequent additions at cost:		
Land, buildings, machinery, woodlands improvements and equipment	128,932	122,282
Accumulated depreciation	72,937	67,860
	55,995	54,422
Woodlands under lease	3,945	3,945
Accumulated depletion	3,693	3,532
	252	413
	56,247	54,835
	$89,571	$95,908

Signed on behalf of the Board:

C. J. W. FOX, *Director*

R. G. MEECH, *Director*

alance Sheet

sands of dollars)

LIABILITIES	1970	1969
CURRENT LIABILITIES		
Accounts payable and accrued charges	$ 6,725	$ 5,768
Income and other taxes payable	447	3,697
Dividend payable	901	901
Current portion of long-term debt	4,645	4,373
	12,718	14,739
LONG-TERM DEBT (Note 4)		
First Mortgage Bonds		
4% sinking fund bonds, Series A, maturing 1975	6,880	7,590
8% sinking fund bonds, Series B, maturing 1989	20,000	20,000
	26,880	27,590
Debentures		
5% sinking fund debentures maturing 1976	1,651	2,702
5¾% serial debentures, Series B, maturing 1971-1972 ($2,850,000 U.S. funds)	3,064	4,601
5¾% serial debentures, Series C, maturing 1971-1975 ($5,000,000 U.S. funds)	5,375	6,450
	10,090	13,753
	36,970	41,343
Portion due within one year	4,803	4,373
	32,167	36,970
DEFERRED INCOME TAXES	15,525	15,780
SHAREHOLDERS' EQUITY		
Common shares without par value (Note 5)		
Authorized 4,500,000 shares		
Issued 3,602,603 shares	2,565	2,565
Retained earnings	26,596	25,854
	29,161	28,419
	$89,571	$95,908

Notes to the Financial Statements

1. The company changed its method of depreciating mill buildings, machinery and equipment from the diminishing balance basis to the straight-line basis effective January 1, 1970. As a result of this change net earnings for 1970 have been increased by $430,000. The comparative figures for 1969 have not been re-stated to give effect to this change; had they been re-stated, net earnings for 1969 would have been increased by $520,000.

2. U.S. dollar current assets and current liabilities including the current portion of long-term debt repayable in U.S. funds, have been stated in Canadian dollars at the one percent U.S. dollar exchange premium in effect at December 31, 1970. Long-term debt repayable in U.S. funds (less the current portion) has been converted to Canadian funds at the 7½ percent U.S. dollar exchange premium in effect at date of issue.

3. The company has signed leases (with options to purchase) covering certain woodlands camps and equipment for periods of two to seven years. The payments under these leases amounted to $850,000 in 1970. Payments will amount to $815,000 in 1971 and thereafter in reducing amounts to $107,000 in 1974.

4. Payments (expressed in Canadian funds) required to meet serial maturities and sinking fund provisions of long-term debt over the next five years approximate $4.8 million in 1971, $4.4 million in 1972, $2.4 million in each of the years 1973 and 1974, and $5.4 million in 1975.

5. Common shares were reserved at December 31, 1970 for the following:

(a) 178,538 shares for outstanding options entitling customers to acquire, under the terms of the options, shares at $25.00 per share exercisable not later than December 31, 1973.

(b) 49,480 shares under a share option plan for the granting of options to certain executive and other employees of the company or of any subsidiary of the company. Options to acquire, under the terms of the plan, 28,270 shares at $24.50 per share exercisable not later than June 1, 1975 were outstanding at December 31, 1970.

(c) 200,000 shares for the common share purchase warrants which accompanied the First Mortgage Sinking Fund Bonds, Series B. The warrants are exercisable at $31.00 per share up to July 1, 1974 and at $33.00 per share from that date until July 1, 1979 when the warrants expire.

6. The trust deeds securing the long-term debt contain the restriction that after any dividend is declared working capital (which for these purposes is before the deduction of the current portion of long-term debt) must be over $5 million and retained earnings must be over $7.5 million.

7. Directors' fees amounted to $72,000 in 1970 and the total remuneration, including directors' fees, received by the directors and senior officers amounted to $405,000 in 1970.

8. Based on actuarial reports, unfunded past service pension costs resulting from retroactive increases in benefits amounted to $1.4 million at December 31, 1970. Past service costs are being amortized over 20-year periods from the dates such costs were established. The amount charged to earnings was $127,000 in 1970.

Auditors' Report to the Shareholders

To the Shareholders of The Great Lakes Paper Company, Limited

We have examined the consolidated balance sheet of The Great Lakes Paper Company, Limited and its subsidiaries as at December 31, 1970 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of providing for depreciation as described in Note 1, were applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD & CO.
Chartered Accountants

TORONTO, ONTARIO, January 23, 1971

* * *

OUR ACCOUNTING POLICY AND METHODS

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles applied on a consistent basis over the years. Significant items are explained below and in notes to the financial statements on page 20.

Inventories

In general, our inventories are valued at average cost which is less than the net amount we would realize from our selling price for the finished product, after deducting cost of completing manufacture and delivery.

Fixed Assets

Land, buildings, machinery, woodlands improvements and equipment are carried at the values placed on them at the inception of this company in 1936, which was the estimated cost to the predecessor company, with subsequent additions at cost. The assets stated at inception values amount to approximately $10 million at estimated cost and are fully depreciated.

The value of woodlands under lease at the inception of the company was determined by deducting the value of all other assets from the liabilities of the company, including issued share capital. Such inception value represents approximately $2.8 million. Subsequent additions carried at cost bring the present balance up to $4 million.

Depreciation and Depletion

As described on page 6, our rates and method of calculating depreciation were changed in 1970. Depreciation on mill buildings, machinery and equipment, representing over 90 percent of our total assets, is now calculated on the straight-line basis at a composite rate of 4½ percent per year, which is based on estimates of the economic lives of our assets. Previously, such assets were depreciated on a diminishing balance basis at a rate of ten percent per year.

Woodlands improvements and equipment continue to be depreciated on the diminishing balance basis at a rate of 30 percent a year. This rate reflects the shorter life of logging equipment and is unchanged from previous years.

In line with accepted practice, we do not charge depreciation on major projects against our earnings until construction has been completed. For this purpose, we define a major project as one costing over $500,000.

Depletion of our natural resources is included with depreciation in the financial statements and represents about two percent of the total.

Deferred Income Taxes

In the first few years following acquisition of a capital asset, the depreciation we claim for income tax purposes under present tax law exceeds the depreciation we actually show in our financial statements. This situation is reversed, however, in later years. As a result, the taxes charged to earnings during the initial period exceed actual tax payments. The excess amounts are set aside as deferred income taxes to be drawn upon in future years when the amount of taxes charged to earnings falls below actual tax payments.

FINANCIAL SUMMARY: LAST TEN YEARS

Except as indicated dollars are in thousands with 000 omitted.	1970	1969	1968	1967	1966
SALES & EARNINGS					
Total sales	79,667	75,226	66,086	69,223	63,857
U.S. dollar exchange profit	2,445	5,518	4,737	5,123	4,383
Operating profit	15,728	17,951	14,455	17,511	17,886
Interest charges on long-term debt	2,537	2,036	1,440	1,673	1,478
Depreciation and depletion charges (see note below)	5,873	6,528	6,881	7,506	5,637
Earnings before income taxes	8,820	10,446	6,359	8,510	10,924
Income taxes	4,475	5,407	3,270	4,300	5,450
Net earnings, total amount	4,345	5,039	3,089	4,210	5,474
Percentage up or down* from previous year	13.8*	63.1	26.6*	23.1*	3.9*
Net earnings per common share (see note below)	1.21	1.40	0.86	1.17	1.52
Net earnings per ton of total shipments (tons on page 24)	8.36	9.72	6.55	8.53	11.81
Common dividends declared, total amount	3,603	3,603	3,603	3,602	3,600
Dividends per common share; in cents	100	100	100	100	100
Dividend percentage of earnings per share	83	71	116	86	66
ASSETS & LIABILITIES					
Current assets, at year-end	33,324	41,073	21,360	20,655	23,080
Current liabilities, at year-end	12,718	14,739	14,221	12,485	16,964
Ratio of above assets to liabilities	2.6	2.8	1.5	1.6	1.4
Working capital	20,606	26,334	7,139	8,170	6,116
Inventories, described in balance sheets	9,279	9,440	9,184	11,464	11,879
Annual expenditures on properties	7,446	2,704	2,222	3,671	13,558
Fixed assets, as described in balance sheets	128,932	122,282	120,096	118,656	115,269
Accumulated depreciation and depletion	76,630	71,392	65,309	59,111	51,822
Long-term debt, at year-end	32,167	36,970	21,343	25,686	30,009
Above debt as percentage of capitalization	52.5	56.5	43.7	47.8	52.3
Deferred income taxes, explained on page 21	15,525	15,780	17,030	18,480	16,565
Retained earnings, at year-end	26,596	25,854	24,949	25,463	24,855
EQUITY & OTHER DATA					
Common shares issued (see note below)	3,602,603	3,602,603	3,602,603	3,602,603	3,600,523
Number of common shareholders, at year-end	5,209	5,418	6,202	6,402	6,632
Percentage of shares held in Canada, at year-end	95.3	93.1	94.2	93.8	93.6
Shareholders' equity, total	29,161	28,419	27,514	28,028	27,367
Shareholders' equity per common share	8.09	7.89	7.64	7.78	7.60
Net earnings percentage return on above equity	14.9	17.7	11.2	15.0	20.0
Net earnings percentage on total sales	5.5	6.7	4.7	6.1	8.6
Total cash flow	9,963	10,317	8,520	13,630	16,562
Cash flow per common share	2.77	2.86	2.36	3.78	4.60
Yearly earnings retained in the business	742	905	—514	608	1,874
Number of employees on payroll, at year-end	2,768	2,857	2,693	2,590	3,077

All figures per share are on 3,602,603 shares issued up to the end of 1970 out of 4,500,000 authorized.

Production and shipments are summarized on page 24.

1965	1964	1963	1962	1961
46,872	41,150	39,195	38,360	38,269
3,434	2,986	2,903	2,598	674
15,746	14,068	13,523	13,186	10,730
774	821	863	913	959
3,167	3,032	3,131	3,285	3,208
11,863	10,417	9,672	9,086	6,645
6,165	5,370	5,000	4,730	3,585
5,698	5,047	4,672	4,356	3,060
12.9	8.0	7.3	42.4	13.5
1.58	1.40	1.30	1.21	.84
16.15	16.13	15.74	14.98	10.51
3,600	3,600	2,880	2,340	2,100
100	100	80	65	58
63	71	62	54	69
19,734	14,855	20,248	18,240	16,947
11,235	5,879	6,015	6,260	6,107
1.8	2.5	3.4	2.9	2.8
8,499	8,976	14,233	11,980	10,840
9,308	7,262	7,236	8,028	8,732
28,093	11,115	1,767	3,079	2,133
102,419	74,653	63,846	62,818	60,116
46,734	43,921	41,224	38,858	35,976
34,313	38,596	18,138	19,180	20,222
57.4	62.3	45.3	48.8	51.4
11,115	3,295	873	735	775
22,981	20,883	19,436	17,643	15,628
600,083	3,600,000	3,600,000	3,600,000	3,600,000
6,926	6,340	6,295	6,077	5,834
93.7	92.9	93.3	92.7	91.8
25,483	23,383	21,936	20,143	18,128
7.08	6.50	6.09	5.60	5.04
22.4	21.6	21.3	21.6	16.9
12.2	12.3	11.9	11.4	8
16,684	10,501	7,804	7,641	6,268
4.63	2.92	2.17	2.12	1.74
2,098	1,447	1,792	2,016	960
2,406	2,100	1,890	1,873	1,687

Figures for the years prior to 1970 have not been re-stated to reflect change in depreciation basis as explained in this report.

GLOSSARY OF TERMS

Total Sales: Total amount we obtain from the sale of our products before deducting costs of delivery to customers and before dollar exchange.

Operating Profit: Profit we get from manufacture and sale of our products after deducting all costs except interest charges, depreciation and depletion, and income taxes. Applies to operations only; does not include investment or other form of income.

Depreciation: The distribution on a yearly basis of the original cost of a fixed asset (defined below) over its estimated useful life, which we write off as a deduction from earnings. Our method of application and details of our policy are fully explained on page 21 in this report.

Depletion: Similar to depreciation but applies to our usage of pulpwood from our licensed forest areas.

Net Earnings: Our total income less all costs; the net amount available to pay dividends or retain for use in our business.

Cash Flow: Total funds generated by operations in a year. In our case, cash flow includes net earnings, charges not requiring cash outlay such as depreciation and depletion and the amount by which deferred income taxes have increased or decreased during the year.

Retained Earnings: Accumulated total of our annual net earnings since the start of the company (1936) less dividends to shareholders during the same period and after taking into account extraordinary items such as bond and debenture issue discount and expense.

Current Assets: Cash and all assets we can normally expect, within a year, to convert into cash or to consume in the process of earning income.

Fixed Assets: Long-term assets, such as land, buildings, plant and equipment, which we hold for earning income rather than for sale or conversion.

Current Liabilities: Amounts we owe (including a portion of long-term debt) due for payment within one year.

Long-Term Debt: Amounts we owe from borrowing money by issues of bonds and debentures.

Sinking Fund: Amounts we pay to independent trustees of our bond and debenture issues, as stipulated in the trust deeds of these issues, to provide annual instalments for their redemption.

Working Capital: Amount by which our current assets exceed our current liabilities, both as defined above. This is a measure of our working or operating resources.

Balance Sheet: Statement of our financial position at a year-end showing what we possess (assets of all kinds) versus what we owe (liabilities of all kinds) and shareholders' equity; set forth in accordance with Ontario Business Corporations Act. The word "consolidated" means that all subsidiaries are included to show position of our enterprise as a whole.

Shareholders' Equity: Value of the shareholders' ownership or interest in the company, shown on our balance sheet. Consists of share capital plus retained earnings and is the amount by which our assets exceed our liabilities.

TONNAGE SUMMARY: LAST TEN YEARS

Financial Summary on two preceding pages: 22 and 23.

TONS OF PRODUCTS SHIPPED TO CUSTOMERS

Years	Newsprint	Chemical Pulps	Total Tons
1961	267,797	23,313	291,110
1962	268,943	21,839	290,782
1963	275,686	21,067	296,753
1964	296,059	16,744	312,803
1965	337,045	15,737	352,782
1966	374,081	89,322	463,403
1967	362,443	131,020	493,463
1968	314,503	157,262	471,765
1969	350,709	167,918	518,627
1970	335,194	184,613	519,807

In both newsprint and pulps, annual shipments sometimes exceed production and vice versa. These differences between production and shipments are balanced by inventory changes and are so negligible that our shipments of chemical pulps recorded above may be taken as representing also our production of these pulps for sale to customers. Our kraft pulp mill started operation in the month of April 1966.

NEWSPRINT TONS AND OPERATING RATIO

Years	Capacity	Production	Ratio (%)
1961	357,348	268,619	75.2
1962	356,356	269,794	75.7
1963	356,048	272,956	76.7
1964	370,182	296,903	80.2
1965	368,676	336,377	91.2
1966	389,914	374,672	96.1
1967	422,956	363,977	86.1
1968	428,868	311,237	72.6
1969	437,030	350,795	80.3
1970	442,078	335,550	75.9

For 1971 our newsprint capacity is rated by the Canadian Pulp and Paper Association as 442,741 tons. Since 1967 capacity has been rated on the basis of continuous operation.

GROWTH OF NEWSPRINT SHIPMENTS

Index numbers with *1955 as 100

	1960	1963	1965	1967	1969	1970
Great Lakes Paper	173	178	218	234	227	216
Total by Canada	108	106	124	128	140	138
Total by U.S.	131	142	141	168	209	213

*We undertook a major program of newsprint mill expansion in 1955.

BOARD OF DIRECTORS

Robert A. Brown, Jr. *president, Home Oil Company Limited*	Calgary	1969
C. J. Carter *vice-president, Great Lakes Paper Company*	Thunder Bay	1947
*Wilbur C. Cochrane *chairman, Cochrane-Dunlop Hardware Ltd.*	Toronto	1942
*C. J. Warwick Fox *president, Great Lakes Paper Company*	Thunder Bay	1953
*Percy M. Fox *chairman of the board, Great Lakes Paper Company*	Bermuda	1952
C. J. Jeffery *vice-president, Great Lakes Paper Company*	Thunder Bay	1947
Hon. Ray Lawson *chairman, Lawson & Jones Limited*	Oakville, Ontario	1936
L. S. Mackersy *vice-president and director, North American Life Assurance Company*	Toronto	1957
V. Irwin Maier *chairman, The Journal Company*	Milwaukee, Wisconsin	1968
C. Blake McDowell *director and general counsel, Knight Newspapers Inc.*	Akron, Ohio	1952
*R. G. Meech, Q.C. *director, National Tea Co.*	Toronto	1936
K. A. Miners *vice-president, Great Lakes Paper Company*	Thunder Bay	1948
B. H. Ridder, Jr. *president, Ridder Publications, Inc.*	St. Paul, Minnesota	1957
Murray D. Seeley *vice-president, Great Lakes Paper Company*	Thunder Bay	1956
*Ian D. Sinclair *president, Canadian Pacific Railway Company*	Montreal	1969
Carl P. Slane *chairman, Peoria Journal Star*	Peoria, Illinois	1953
Russ Stewart *senior vice-president, Field Enterprises Inc., publishers of Chicago Sun-Times and Chicago Daily News*	Chicago	1957
G. Gordon Strong *president & publisher, Thomson-Brush-Moore Newspapers, Inc.*	Canton, Ohio	1968

**Members of the Executive Committee.*

Years denote beginning of connection with the company.

MANAGEMENT

Percy M. Fox, *chairman of the board*	1952
C. J. Warwick Fox, *president & general manager*	1953
K. A. Miners, *vice-president, finance*	1948
C. J. Jeffery, *vice-president, manufacturing*	1947
Murray D. Seeley, *vice-president, woodlands*	1956
C. J. Carter *vice-president, engineering*	1947
C. R. Caddo, *secretary*	1929
C. R. Bowles, *treasurer & comptroller*	1964
D. D. Morrow, *assistant treasurer*	1964
M. G. Rea, *assistant secretary*	1969
F. H. Tollefsen, *manager, information services*	1966

NEWSPRINT SERVICES

Lake Superior Newsprint Co., Chicago, servicing of newsprint paper contracts: Bruce Fallows, *president;* W. D. Frost, J. H. Netherland, R. A. Schmidt, *vice-presidents.*

SALE OF PULP

Lake Superior Pulp & Paper Inc., Chicago and New York, sale of kraft and sulphite: Bruce Fallows, *president;* R. L. Nash, *vice-president.*

AGENTS AND REGISTRAR

Our transfer agents are The Royal Trust Company, Toronto, Montreal, Calgary and Regina, and the Bank of Montreal Trust Company in New York. Our registrar is The Canada Trust Company, Toronto, Montreal, Calgary and Regina.